

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6214

BILL NUMBER: HB 1632

NOTE PREPARED: Nov 28, 2004

BILL AMENDED:

SUBJECT: 1977 Fund Retirement Benefits.

FIRST AUTHOR: Rep. Adams T

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: This bill provides that a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund who has completed 20 years of service may retire at 50 years of age, instead of 52 years of age. It eliminates the 1977 Fund member's election to retire with actuarially reduced benefits; and increases the percentages that apply when calculating a benefit for a 1977 Fund member with more than 20 years of service.

Effective Date: July 1, 2005.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: This proposal would make two changes: (1) Members may retire at age 50 with 20 or more years of service with no actuarial reduction in benefits; and (2) the benefit percentage for service in excess of 20 years would increase from 1% for every six months of completed service to 1.25% (or for members who retire prior to January 1, 1986, increase from 2% for every completed year of service to 2.5%). This would provide a maximum pension benefit amount of 80% of a first class salary upon completion of 32 years of service. The estimated impact appears in the table below.

	Change # 1 Only	Change # 2 Only	Combined
Estimated Increase in Unfunded Accrued Liability	\$53.7 M	\$99.4 M	\$156.2 M
Estimated Increase in Annual Funding	\$7.0 M	\$12.5 M	\$19.8 M
Employer Contribution Percentage	21% increases to 22.6%	21% increases to 23.8%	21% increases to 25.5%

The funds affected are the police and fire pension funds. The principal sources of revenue to local units for contributions into these funds may include property taxes, cigarette taxes, the Financial Institutions Tax, county option income taxes, the Commercial Vehicle Excise Tax, auto and aircraft excise taxes, and the Wagering Tax, as well as others.

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund (PERF) as administrators of the 1977 Police Officers' and Firefighters' Pension and Disability Fund.

Local Agencies Affected: Those units with members in the 1977 Police Officers' and Firefighters' Pension and Disability Fund.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF and the 1977 Police Officers' and Firefighters' Pension and Disability Fund, 317-576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS:

Contribution Rate: As to an employee, a factor, such as a percentage of compensation, used in determining the amounts of payments to be made by the employee under a contributory pension plan. As to the employer, a factor, calculated in an actuarial valuation, to be used in determining the employer's annual normal cost contribution under a pension plan. An employer's contribution rate may be either a percentage to be applied to the total compensation paid to covered employees for a particular year, or an amount in dollars to be applied to the total number of covered employees at a particular date.

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.